

Message Text

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S E C R E T SECTION 01 OF 03 LONDON 04395

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FOR THE PRESIDENT, THE SECRETARY AND SECRETARY
BLUMENTHAL

E.O. 11652: XGDS-1
TAGS: PGOV, UK
SUBJECT: PRIME MINISTER CALLAGHAN'S VISIT TO
WASHINGTON

1. HIGHER LEVELS OF HMG HAVE BEEN RELUCTANT TO GIVE ANY DEFINITIVE PROSPECTUS OF THE PRIME MINISTER'S AGENDA FOR HIS FORTHCOMING TALKS WITH THE PRESIDENT. THE FOLLOWING THEREFORE IS PLAUSIBLE SURMISE ON THE BASIS OF EMBASSY STAFF TALKS WITH DOWNING STREET AIDES AND TREASURY OFFICIALS. MY OWN IMPRESSIONS ARE HEAVILY DEPENDENT ON TALKS WITH HAROLD LEVER, A SENIOR CABINET MEMBER WITHOUT PORTFOLIO WHO HAS CONSIDERABLE WEIGHT ON ECONOMIC AND FINANCIAL PROBLEMS.

2. IN ADDITION TO ADDRESSING THE WORLD ECONOMY, WE ASSUME THAT THE TALKS WITH THE PRESIDENT WILL TOUCH ON THE MIDDLE EAST, RHODESIA, PLANS FOR EXPANSION OF THE UK NUCLEAR REPROCESSING FACILITY AT WINDSCALE AND THEIR IMPACT ON NUCLEAR PROLIFERATION, NATO SUMMIT PLANS, ERW, SALT, CTB AND OTHER EAST-WEST
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PROBLEMS. I WOULD NOT EXPECT ANY NEW OR SURPRISING POSITIONS ON THESE MATTERS. CALLAGHAN'S EMPHASIS WILL BE ON THE ISSUE OF A COMMON ECONOMIC AND MONETARY STRATEGY FOR THE BIG FIVE WESTERN INDUSTRIALIZED POWERS, MOST CRUCIALLY THE UK, FRG AND US.

3. THE BRITISH SENSE OF URGENCY IS MOTIVATED, I

BELIEVE, BY THE CONVICTION THAT THERE CAN BE NO GROWTH WITHOUT CONFIDENCE, THAT THERE CAN BE NO CONFIDENCE IF THERE IS NOT GREATER STABILITY IN FOREIGN EXCHANGE MARKETS AND THAT THERE CAN BE NO CONVINCING STABILITY IN THE MARKETS IN THE ABSENCE OF CONCERTED POLICIES TO RESTORE CONFIDENCE IN THE DOLLAR. URGENCY IS HEIGHTENED BY THE REAL FEAR THAT IN THE ABSENCE OF CONCERTED POLICIES THERE WILLHOB A DISASTROUS ESCALATION OF COMMERCIAL AND FINANCIAL CHAUVINISM, IN THE SHAPE OF BOTH TRADE AND FINANCIAL PROTECTIONISM.

4. MOREOVER, ALL OF THESE CONCERNS ARE FURTHER HEIGHTENED TO THE POINT OF PANIC BY THE PROSPECTIVE GENERAL ELECTION. LAST FALL, THE LABOR GOVERNMENT THOUGHT IT HAD IT MADE. THE POUND WAS STRONG. WAGE RESTRAINT WAS SURPRISINGLY SUCCESSFUL. INFLATION WAS ON ITS WAY DOWN TO SINGLE FIGURES. THERE WERE EVEN SIGNS OF REAL GROWTH. IT LOOKED AS THOUGH A GENEROUS BUT NOT SPENDTHRIFT BUDGET, COUPLED WITH A GENEROUS TAX CUT, WOULD ALLOW THE GOVERNMENT TO GO TO THE PEOPLE LTT THIS SPRING OR NEXT FALL WITH A CREDIBLE CLAIM THAT IT HAD BRITIAN MOVING AGAIN. NOW THESE HOPES ARE CLOUDED BY STAGNATION IN WORLD TRADE AND BLEAK PROSPECTS FOR WORLD ECONOMIC GROWTH.

5. MUCH AS THE BRITISH WOULD LIKE TO SEE HIGHER LEVELS
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OF GROWTH IN JAPAN AND GERMANY, THEY DO NOT THINK THAT EITHER FURTHER PREACHING OR PRESSURE ARE LIKELY TO ACCOMPLISH MORE IN THE NEAR TERM. EVEN HEALY, WHO IS SAID TO HAVE ONCE THOUGHT THAT A DECLINING DOLLAR WAS THE BEST WAY TO PUT PRESSURE ON THE MARK AND YEN, IS REPORTED NOW TO HAVE DOUBTS ABOUT SUCH A STRATEGY.

6. THOSE CLOSE TO CALLAGHAN INCLINE TO THINK THAT THE UNITED STATES IS NOT SUFFICIENTLY AWARE OF THE IMPACT OF THE DOLLAR'S DECLINE AND OF ITS UNPREDICTABILITY UPON INTERNATIONAL CAPITAL AND COMMERCIAL CONFIDENCE. MOREOVER, IN THE ABSENCE OF ANY OTHER PRACTICAL RESERVE CURRENCY, THEY SEE WORLD CONFIDENCE IN THE DOLLAR AS INDISPENSIBLE TO GROWTH.

7. AT THE SAME TIME, THEY DO NOT THINK IT IS THEIR BUSINESS TO LECTURE THE U.S. ON HOW TO PUT ITS OWN HOUSE IN ORDER. CALLAGHAN HIMSELF, ABOVE ALL, HAS A GREAT UNDERSTANDING OF AND PATIENCE WITH THE REALITIES OF THE PROCESSES OF REPRESENTATIVE GOVERNMENT. HE PUTS RATHER LESS STOCK THAN WE DO IN ANY COUNTRY'S ABILITY TO TELL ANOTHER HOW TO BEHAVE, WHETHER BY PREACHMENT OR BY BARGAINING. SO I DO NOT EXPECT ANY LECTURES FROM HIM ON AMERICAN DOMESTIC OR ENERGY
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POLICY, EVEN THOUGH HE OF COURSE WOULD WELCOME AN ENERGY ACT AS AN EARNEST OF THE CAPACITY OF THE UNITED STATES TO DEAL EFFECTIVELY WITH ITS OWN PROBLEMS BY THE SAME TOKEN, I THINK HE WILL TRY TO CONVINCE US THAT THERE ARE SEVERE LIMITS TO OUR ABILITY TO TELL THE GERMANS HOW TO BEHAVE; INDEED HE MAY FEEL THAT WE HAVE EXCEEDED THOSE LIMITS TO THE POINT OF COUNTER-PRODUCTIVITY.

8. WHAT HE IS LIKELY TO PUSH FOR, I THINK, IS NOT A RECIPROCAL BARGAIN ON ECONOMIC OR TRADE POLICY, BUT THE DEVELOPMENT OF A CONSORTIUM TO STABILIZE THE DOLLAR. HE FEELS STRONGLY THAT THE FIVE, MOVING IN CONCERT, CAN NOT ONLY PROVIDE A POOL LARGE ENOUGH TO DO THE JOB, BUT CAN AVOID THE BUCK-PASSING WHICH IS INEVITABLE IF ANY ONE OF THEM ALONE FEELS IT IS ASKED TO SHOULDER A DISPROPORTIONATE SHARE OF THE RISK. ACTION IN CONCERT, HE FEELS, WOULD ALSO AVOID THE PROLIFERATION OF CURRENCY OR EXCHANGE BARRIERS ALONG

THE LINE OF THE RECENT SWISS MOVE. WHILE THERE WOULD HAVE TO BE SOME AGREEMENT ON MAGNITUDES AND SHARES, AND THERE WOULD HAVE TO BE SOME MECHANISM FOR DECIDING AT WHAT LEVEL THE SUPPORT FUNDS WOULD BE TRIGGERED, I DO NOT THINK HE WOULD COUPLE THE STABILIZATION CONSORTIUM WITH CONDITIONS ABOUT TRADE, GROWTH, DEFICITS OR SURPLUSES. THEY WOULD NOT CEASE TO BE IMPORTANT, BUT THEY SHOULD NOT BE A CONDITION OF AGREEMENT TO PARTICIPATE IN SUCH A STABILIZATION CONSORTIUM.

9. HIS REASON FOR PUSHING THIS NOW IS BASED, I THINK, ON TWO CONSIDERATIONS. ONE IS TECHNICAL. EVEN IF THE US, UK AND FRG AGREED IN PRINCIPLE, THERE WOULD BE MUCH TO BE DONE BETWEEN NOW AND JULY IF SUCH A
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PLAN WERE TO BE INAUGURATED IN CONJUNCTION WITH THE BONN SUMMIT. FURTHER, FOR CALLAGHAN PERSONALLY, THE CONFIDENCE THAT SUCH A PLAN WOULD BE IN PLACE IN THE NEAR FUTURE WOULD ALLOW MORE CONFIDENT BUDGETARY AND TAX-CUT PREPARATION FOR THE FORTHCOMING ELECTION.

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10. ALTHOUGH I AM IN THE MINORITY ON THE MATTER, IT IS MY HUNCH THAT HE IS SERIOUSLY CONSIDERING A LATE SPRING ELECTION CALL IF THE INTERNATIONAL ECONOMIC

PATH CAN BE CLEARED SOMEWHAT.

11. FINALLY, I THINK IT IS HARD TO OVERSTATE THE
BRITISH CONCERN ABOUT THE RISE OF FINANCIAL AND
COMMERCIAL CHAUVINISM IF PROSPECTS FOR GROWTH REMAIN
FLAT. BRITAIN, OF COURSE, AS AN EXTERNALLY
DEPENDENT ECONOMY WOULD BE THE BIGGEST LOSER IN
A MORE AUTARCHIC WORLD.

12. THEY ONLY HOPE THAT OUR RELATIVE SELF-CONTAINMENT
DOES NOT BLIND US TO THE URGENCY OF THE MATTER. AND
THEY, IN THEIR TURN, SHOULD BE EXPECTED TO REJECT
PROTECTIONIST MOVES AND TO STOP DRAGGING THEIR
FEET IN THE MULTILATERAL TRADE NEGOTIATIONS.

13. CALLAGHAN AND HIS COLLEAGUES HAVE GREAT CON-
FIDENCE IN THE US ECONOMY AND ARE NOT UPTIGHT ABOUT
OUR PRESENT DEFICIT. THEY DO, HOWEVER, SENSE A
DESPERATE NEED FOR DOLLAR STABILITY,
CONCERTED PLANNED ACTION AND AMERICAN LEADERSHIP
TO THESE ENDS.

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